

Message Text

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ACTION EUR-12

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 8214

INFO AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USMISSION EC BRUSSELS

AMCONSUL ZAGREB

C O N F I D E N T I A L BELGRADE 6358

E.O. 11652: GDS

TAGS: ECON YO

SUBJ: SERBIAN PRESIDENT MARKOVIC ON THE ECONOMIC SITUATION

1. IN A LENGTHY CONVERSATION SEP 23 WITH THE
AMBASSADOR, SERBIAN PRESIDENT DRAGOSLAV MARKOVIC SAID
THE ECONOMIC SITUATION WAS MAIN ISSUE FOR SERBIA AND
COUNTRY AND WAS CANDID IN HIS DISCUSSION OF
CURRENT PROBLEMS. HE INDICATED THAT MEASURES TAKEN TO CURB
INFLATION AND IMPROVE THE BALANCE OF PAYMENTS RESULTED IN
A DECREASED GROWTH RATE, BUT NONETHELESS SOCIAL CONSUMPTION
NOT SUFFICIENTLY CURBED. IN DISCUSSING EMPLOYMENT, WHICH
ONE OF FEW AREAS IN WHICH 1976 DEVELOPMENT PLAN TARGETS
EXCEEDED, HE INDICATED THAT LOCAL PRESSURES ON FIRMS
OFTEN LEAD TO SALARY INCREASES WHICH MAY NOT BE JUSTIFIED
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ECONOMICALLY. HE MENTIONED AS FURTHER PROBLEMS INADEQUATE

JOB TRAINING AND POOR PROJECTIONS OF LABOR MARKET NEEDS, ON TOP OF A RAPIDLY CHANGING RURAL-URBAN POPULATION STRUCTURE. HE DENIED THAT RETURN OF SERBIAN GUEST WORKERS WAS CAUSING DIFFICULTIES. HE ADMITTED THE NEED TO ENCOURAGE LOCAL INVESTMENT OF GUEST WORKER CAPITAL AS WELL AS TO DEVELOP A SYSTEM UNDER WHICH SURVIVORS RECEIVE SOME RETURN ON EQUITY AFTER AN INVESTOR'S DEATH. HE EXPRESSED THE NEED FOR MORE FOREIGN INVESTMENT, CLAIMED NO KNOWLEDGE OF ANY GOY MOVES TO RESTRICT JOINT VENTURES WITH WESTERN FIRMS, AND PROMISED TO INQUIRE INTO THE DOW REGISTRATION DELAY. HE SAID THAT YUGOSLAVIA BENEFITS MORE FROM U.S. INVESTMENT THAN DOES THE U.S.

2. COMMENT: MARKOVIC WAS MOST IMPRESSIVE, BOTH IN HIS WILLINGNESS TO DISCUSS SENSITIVE SUBJECTS, SUCH AS EMPLOYMENT, AND THE CANDOR OF HIS RESPONSES. HIS REMARKS CONFIRM IMPORTANCE LEADERSHIP PRESENTLY ATTACHES TO SOLVING ECONOMIC PROBLEMS. RESTIMULATING ECONOMY AND THUS ALLOWING

PRODUCTION TO COME CLOSER TO PLANNED TARGET SEEMINGLY HAS HIGHEST PRIORITY, BUT THIS RISKS UNLEASHING INFLATIONARY FORCES AND JEOPARDIZING EXTERNAL BALANCES. NOT YET CLEAR HOW SUCCESSFUL YUGOSLAVS WILL BE IN TRADE-OFF BETWEEN GROWTH AND INFLATION BUT MARKOVIC'S REMARKS SUGGEST HE ON SIDE OF THOSE ADVOCATING GREATER EFFORTS TO BRING UP PRODUCTION.

3. HIS COMMENTS ON DOW RATHER PUZZLING. HE CITED DOW AS EXAMPLE OF KIND OF JOINT VENTURE TO BE ENCOURAGED AND WHEN AMBASSADOR MENTIONED DELAY IN REGISTRATION HE SEEMED GENUINELY SURPRISED.

4. DETAILED MEMCON WILL FOLLOW.
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